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Approved For Release 2002/05/20 : CIA-RDP80-00473A000300080019-5

DD/A Registry

77-3127

File

DDM 1-2

20 May 1977

MEMORANDUM FOR THE RECORD

SUBJECT : Establishment of Staff of Internal Organization  
Development Specialists or Consultants

REFERENCE: Notes from the Director No. 1

Background

1. In September 1976 I submitted an Employee Suggestion recommending the establishment of a Staff of Internal Organization Development consultants, or specialists, to provide management, from the Directorate level down through the Branch or even Section level, with internal resources for diagnostic and consultative services to any unit at any level for those areas of management that fall within the scope of Organization Development. Some of the areas that typically fall within the scope of OD are: action research; survey and feedback; organizational renewal; team building; affirmative action; vertical and lateral communications; conflict management; role clarification, role negotiation, job enrichment; career planning; interpersonal competence acquisition; and MBO.

2. I feel in retrospect that I chose the wrong forum, in that my intent was to propose an idea or concept for management to consider for development into a dynamic management process tool. I had no thoughts or desire to quantify or try to relate the concept to the traditional monetary reward format with which most employee suggestions are processed.

Critique and Clarification

3. After reviewing the evaluations of my Employee Suggestion #77-93 I am convinced not only of the applicability but the need for a dynamic management tool such as an internal staff of organization development specialists. The two evaluations of my suggestion, one by OP and one by DDA, were completely at odds in their perceptions of Organization Development. OP based their response on the premise that

State Department review completed

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OD is only applicable in a centralized form of management whereas the DDA response assumed the premise that its applicability is to decentralized management. OD is in fact used in industry and the federal government in both managerial cultures. Organization Development is a dynamic process, providing a mechanism to continually sense and assess an organization's culture and ascertain if there is a need for change and if so, what change. There are several premises on which OD is based, two are: that there is always room for improvement or adjustment in an organization; and given that the external world is constantly changing, it is better to deal with change as an ongoing dynamic process rather than waiting for problems to develop or a crisis to arise and then resorting to corrective or catch-up action.

4. Warren Bennis (president, University of Cincinnati) and Wendell French (professor, University of Washington) define Organization Development as a long range effort to improve an organization's problem solving and renewal processes, particularly through a more effective and collaborative management of organizational culture, with the assistance of a change agent, or catalyst, and the use of the theory and technology of applied behavioral science, including action research. It is a complex educational strategy intended to inculcate or reinforce beliefs, attitudes, values, and structures of organizations to enable them to better adapt to new technologies, markets, requirements, challenges, and the dizzying rate of change itself.

5. The DDA evaluation adequately refutes the OP evaluation, and on the whole presents more supportive data to the suggestion than it does data to support its recommendation to decline the suggestion. Some examples are: "systematically apply behavioral science principles--to improve the extent to which the organization accomplishes its goals or carries out its mission"; "OD is a dynamic process providing a mechanism to continually recognize and reduce deficiencies--on the premise that however effective and organization may perform, it could be improved"; (can't we improve?) "Although OD concepts are applicable for large organizations, such as the CIA, the focus of OD is usually toward components such as Offices, Divisions, or Branches. (exactly what I suggested)

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"The consultant (their assumption is external, my suggestion is internal) works with organizational members in identifying key problem areas (e.g., group interaction, lateral communications), what changes are desired, how change should be implemented, and how resultant change should be assessed."  
"OD is consistent with a decentralized form of management such as that within the Agency."

6. The evaluation then proceeds to identify several individual things the Agency does, "consistent with the basic tenets of OD" e.g., attitude surveys, the creative leadership seminar (under development), the Levinson seminars, the Managerial Grid course, assessment centers, MBO. The closing paragraph starts with "In conclusion, the framework for an OD effort already exists within the Agency."

7. Many of these same areas and problems are identified in the report on two seminars on Creativity and Ethics in CIA published by the Center for the Study of Intelligence, OTR.

8. Some of the issues raised by the Seminar on Creativity and Ethics in CIA (17-18 January 1977) are those that lend themselves to an Organization Development effort and demonstrate that senior level officers of the Agency recognize the need for improvement, adjustment, and change. Some examples are:

a. better vertical and cross-Directorate communications in CIA;

b. elimination of the bureaucratic isolation of office-level components across Directorates;

c. clarification of the aims, goals, and purposes of the Agency;

d. stressing those parts of MBO perceived as lacking in the Agency, i.e., sense of participation and better vertical communications;

e. clarification of expectations;

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- f. broadening of decision making process;
- g. more interdisciplinary and team approaches;
- h. Better recognition of creative initiatives;
- i. better feedback, i.e., more;
- j. zero-based management review of organizational tasks, methods, and management processes.

9. In conclusion, I would address the prevalent myth that OD is only practiced by Organizational Psychologists. The US Army develops its own internal OD specialists for its current programs in MILPERCEN, DESPERS, FORSCOM, and 82nd Airborne to name a few I'm personally aware of. The US Navy does much the same thing for its Human Resource Development centers. Most of those entering the field of Organization Development as practitioners are now coming out of graduate programs in OD. There is a growing number of Federal employees moving into the field of OD through the two local graduate programs at American and George Washington Universities. There is an informal network of practicing OD specialists representing 9 or 10 different agencies that meet monthly under the sponsorship of the CSC. The Bureau of Navy Personnel is currently in the process of establishing a job description for organization development specialists. The development of our own staff of internal organization development specialists would require the assistance of an external Organization Development Consultant with experience in helping to establish an Internal Staff. There are many prominent OD consultants with the capabilities and commensurate experience.

25X1A

Attachments:

- A - Employee Suggestion #77-93
- B - OP Evaluation
- C - DDA Evaluation



# Notes from the Director

No. 1

3 May 1977

1. I have noted that there are few established systems of personalized communications between senior management and all of the employees of our Agency. Accordingly, I am instituting this series of Director's notes which will be posted on the bulletin boards, distributed to offices, and sent by message to posts overseas from time to time when there are items which I consider to be of interest to all of us in the Central Intelligence Agency.

2. DIRECTOR'S NOTES:

a. Open Budget:

Last week the Senate Select Committee on Intelligence held testimony on whether or not to declassify the National Foreign Intelligence Program budget. It was my position that publishing a single budget figure could be an important part of our program of greater openness with the American public and need not endanger our security or activities. I advised the Committee, however, that we must hold the line rigidly at the single figure only. It is now up to the Congress to decide whether or not to release an open budget figure.

b. Energy Reports:

Over the last two weeks we have released to the public unclassified versions of two outstanding studies completed by

our economists. These have made a very useful contribution to the critical and public discussions that are going on about our energy prospects. Although the Agency has been criticized for appearing to have released these publications for the purpose of supporting the President's energy program, this was in fact not the case. The studies had been in progress for over a year and their results were not known to the President until well after his program was under development. The information contained in them was of such significance that it would have been a disservice to our country not to have made it available. It is my intention to continue to provide unclassified information to the public whenever it will be of value. They pay for our services and deserve to benefit directly from them as much as possible within our security limitations.

c. [ ] Letter:

A former employee, [ ] wrote an open letter to me which was published in The Washington Post. The letter contains several allegations of improper conduct on the part of the Agency, as well as management deficiencies.

Although [ ] declined my personal request to elaborate and be more specific on these charges, I intend to investigate them diligently. It would be most helpful if employees

with complaints, suggestions, or observations to report would follow the procedures of [ ] in forwarding such information either to the Inspector General, the DDCI, or myself--or to the Intelligence Oversight Board directly and privately. We all want to improve our Agency in any way that we can, and suggestions

or constructive criticisms or reports of apparent improprieties or illegalities are encouraged.

d. Director's Invitation:

In my talk to employees on 28 March, I invited direct written and private communications from any employee during the following 60 days. The question has come up as to whether the cutoff could be extended. It is extended indefinitely and I would welcome communications of a constructive nature at any time.

A handwritten signature in dark ink, appearing to read "Stansfield Turner", with a stylized, flowing script.

STANSFIELD TURNER  
Admiral, U.S. Navy  
Director



## EMPLOYEE SUGGESTION

(Do Not Write in This Space)

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Att A

THE ACCEPTANCE BY ME OF A CASH AWARD FOR THIS SUGGESTION SHALL CONSTITUTE AN AGREEMENT THAT THE USE OF THE SUGGESTION BY THE UNITED STATES SHALL NOT FORM THE BASIS OF A FURTHER CLAIM OF ANY NATURE UPON THE UNITED STATES BY ME, MY HEIRS, OR ASSIGNS.

STATINTL

DATE

3 September 76

NAME OF SUGGESTER

☒ MR.  
☐ MRS.  
☐ MISS

POSITION TITLE

Contracting  
Officer's Tech Rep

GRADE

GS-09

ROOM

BUILDING

OFF/DIV/BRANCH

OC-E/CED/CEB

TELEPHONE

IF CONSULTATION IS REQUIRED, MAY WE  
REFER YOUR NAME TO THE EVALUATOR?

☒

YES

☐ NO

TITLE OR SUBJECT OF SUGGESTION

Establishment of Internal Organization Development  
Consultants

SUGGESTION NO.

77-93

PRESENT METHOD

N/A

I SUGGEST

My suggestion is that the Agency establish a unit to provide diagnostic and consultative services as an internal resource in the areas of organizational development. Such a staff could be easily incorporated either into the Office of Training or as a separate staff of the DDA. An Organization Development Staff could provide internal resources for diagnostic and consultative services to any organizational unit within the Agency relating to any of those areas that fall within the defined areas of Organization Development, e.g., action research, feedback, interpersonal competence acquisition, organizational renewal, team building, conflict management, role negotiation, role clarification, and job enrichment; and those areas of MBO (which are inherently self-defining as areas of Organization Development) which require collaborative teamwork in order to make Management by Objectives a viable form of management. (Continued next page)

ADVANTAGES

N/A

EMPLOYEE SUGGESTION (continued)

I have developed the feeling in reading staff notes at the directorate level that there is a desire within the Agency to better establish collaborative efforts at the interoffice level within a directorate to work more effectively and more cohesively as an organizational unit rather than as many subunits autonomous unto themselves, finding themselves in a position of having a somewhat nebulous idea of their responsibilities or commitments to a total organizational goal or effort. Having an internal staff that could provide internal resources to diagnose and to consult to the organizational questions that fall within Organization Development could be useful at many levels of the Agency; at the total organizational level (interdirectorate level), within a particular directorate at the interoffice level, or within an office at the interdivision or the interbranch level. It could also be applicable within a branch working with first and second line supervisors and managers to establish a more effective work unit that could identify with organizational goals and objectives beyond that of their branch.

Organization Development efforts are spreading quickly throughout the Federal Government. Some of those of which I am aware begin in the Civil Service Commission itself and are found also in the General Accounting Office, in the Social Security Administration, in the National Institutes of Health, in the Interior Department, in the Human Resources Development Section of the Navy, in several divisions of the Army at the active duty military level, in the Housing and Urban Development Department, in the Internal Revenue Service, in the Federal Aviation Administration, in the Federal Housing Loan Bank Board, in the Postal Service, in the Bureau of Engraving and Printing, and in the State Department.

The main thrust of any area of Organization Development goes beyond the cognitive level to the process level, assuming that almost all organizations are technically competent to achieve the tasks that are theirs with the personnel that they have but frequently are not able to work together in the most efficient manner. And it is those problems of effectively utilizing and managing their human resources that get in the way of accomplishing the overall goals and objectives of the organization. By providing an internal staff of Organization Development Consultants that could be available to any manager at any level within the Agency, it would allow any level manager to deal with his human resources from the perspective of planning and on-going management as opposed to waiting for a potential problem to become self-evident and problematic resulting in what is more commonly known as fire-fighting.

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# SUGGESTION EVALUATION REPORT

TO: Executive Secretary  
Suggestion Awards Committee

SUGGESTION NO.

77-93

SUSPENSE DATE

INSTRUCTIONS: Please complete this form in detail to guide the Suggestion Awards Committee in making a final determination of the merits of this suggestion. Retain third copy.

1. ACTION RECOMMENDED ☐ ADOPT ☒ DECLINE ☐ OTHER (Specify):

2. REASONS FOR RECOMMENDATION (If more space is needed, use plain paper)

This is a suggestion for top management (Agency or Directorate) consideration and we would suggest it be sent to the DD/A for review and recommendation, if thought feasible, to the EAG. We do not believe, as suggested on the routing, that a poll of DDA offices would serve any purpose.

The establishment of an Organizational Development Staff would normally be follow-on of a Management Staff with oversight responsibilities. It assumes centralized management, a structure for following objectives at the organization level instead of office or unit, delineation of performance criteria reflective of the objectives established, et al. Support for this type of organization does not now exist in the Agency. Should the Agency management evolve into a centralized system, this type of staff responsibility would be a natural development.

In reviewing this suggestion, however, we believe the following comments are pertinent in an evaluation should OD Staffs be established in the future. The concept stated herein is attractive but falls short of being something that can be implemented as we now function. The proposal does not consider how the suggested OD Staff would be recruited and trained. It does not address whether the Staff should be located at the Agency or Directorate level. It does not provide an answer on how to establish credibility for the Staff with the managers it is to help. It does not lay out the cost-benefit calculus that would permit one to evaluate the suggestion. It does not define the need except in the nebulous terms of the desirability of a cooperative effort to solve problems, always a valid idea.

Should the Agency or a Directorate in the future go the route of an OD Staff, we do not believe it would be in response to this suggestion, but rather as a step in evolving management concepts. The OD Staff, as noted above, is a natural development of a centralized approach to management.

3. TANGIBLE FIRST-YEAR SAVINGS (Man-hours, material, equipment, etc.)

4. INTANGIBLE BENEFITS (See guide on reverse side of third copy)

5. WHAT OTHER OFFICES, DIVISIONS, ETC. MIGHT ALSO USE THIS IDEA?

DDA

SUBJECT : Employee Suggestion No. 77003

ACTION RECOMMENDED: Decline

REASONS FOR RECOMMENDATION:

1. "Organization development" is the means by which members of an organization identify their organizational deficiencies and systematically apply behavioral science principles toward reducing them in order to improve the extent to which the organization accomplishes its goals or carries out its mission. Classically, OD is a dynamic process providing a mechanism to continually recognize and reduce deficiencies--on the premise that however effective an organization may perform, it could be improved.

2. There is no specific "OD System," only a body of principles to guide the process. There are as many OD models as there are OD applications. Although OD concepts are applicable for large organizations, such as the CIA, the focus of OD is usually toward components such as Offices, Divisions, or Branches. An organization would usually enter into an OD program with the help of an Organizational Consultant (generally a Management Psychologist). The consultant, after observing the organization in action, works with organizational members in identifying key problem areas (e.g., group interaction, lateral communications), what changes are desired, how change should be implemented, and how the resultant change should be assessed. An important part of organization development, particularly in its initial stages, is a training program tailored to the individual needs of an organization.

SUBJECT: Employee Suggestion No. 77003

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3. In summary, OD is consistent with a decentralized form of management such as that within the Agency; it is more effective within components or subcomponents than it is at large organizational levels; and, it requires the full support of the component manager and the participation of its members. On the other hand, there is no guarantee that OD, however carefully it is applied, would improve the effectiveness or productivity of an organization. (Research has revealed that some organizations are more productive and their members more satisfied in an authoritarian environment than in one which is participative.) It should also be emphasized that OD specialists--qualified for consulting and diagnosing organizational problems--are rarely found in Government service.

4. Additionally, the Agency, particularly in the last few years, has made (and continues to make) definite strides toward improving its effectiveness, which while consistent with the basic tenets of OD, are not specifically labeled "organization development." The following is a sampling of such activities:

a. The recent attitude surveys, enabling Agency management to identify problem areas and attitudes in order to concentrate attention on areas of need.

b. Training programs, which include: courses to improve technical competence as well as courses designed for individual improvement; supervisory development courses; a new leadership seminar (under development) which will include specific OD principles; a seminar offered to senior management conducted by Professor Levinson (who is a Psychologist, an academician, a management consultant, and an advocate of OD), and most importantly, the Management Grid course which represents a preliminary stage of organization development.

c. The Agency employs a Management Psychologist (attached to OMS, and temporarily assigned to OTR, to assist in the development and teaching of management training courses). The Agency Psychological Services Staff (OMS), in addition to various OTR faculty members, are available to provide guidance or consultation on a variety of managerial or organization development topics.

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5. Other endeavors toward this end include the MBO Program (particularly within the DDA), programs in virtually all Directorates to improve the communications process, the assessment centers (conducted with the assistance of OMS), and the individual training workshops which are available through OTR.

6. In conclusion, the framework for an OD effort already exists within the Agency. Organization development concepts are being utilized by the Agency and numerous Agency employees have been exposed to them through the various programs cited above. Should components wish to pursue OD to the point of developing a specific program, a mechanism exists by which to do so. In this respect, I recommend that this suggestion be declined.

ILLEGIB

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STANSFIELD TURNER  
Admiral, U.S. Navy  
Director

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*Sent out on from  
Note for the Director*

As I'm sure you're all aware, the President has announced his reorganization plan for the Intelligence Community. The basic decision expands considerably the authority of the Director of Central Intelligence and now we are redrafting Executive Order 11905 to translate the President's decision into action. I am working on the details of how to organize within the new mandate given me by the President. My own thinking is not entirely firm at this point, but I feel I should share with you my thoughts on where things stand.

~~Director of the Intelligence Community~~

As ~~the~~ / I am pleased with the outcome because I think it gives both the DCI ~~as~~ director of CIA me a much greater opportunity to effectively coordinate the entire intelligence activities of the country. ~~As the Director of CIA I am pleased because~~ and intelligence process generated by this decision of the National Foreign Affairs Community can only benefit us. These policymakers understand us better, they know what we can do for them and as a result they will involve us more in their policy process. Contrary to the reports in the media, the Secretary of Defense and I are in full agreement with the final decision. During the debate there were sharp differences of opinion but the whole thing was done with an air of cordiality and respect.

Under the reorganization, three new authorities have been given to the DCI. First is the chairmanship of a Priorities Review Committee (PRC)  consisting of the Secretary of State, Secretary of the Treasury, Secretary of Defense, and the National Security Advisor, to establish the substantive requirements for intelligence.

ILLEGIB

The second is the full control of the budget process which will ensure <sup>that</sup> there is neither undue overlap nor, what is bothersome more, underlap in our intelligence activities. And, finally, as DCI I will have full tasking authority over the entire intelligence community which will enable us to have a central point where all of the collecting<sup>ing</sup> elements of the community are pulled together.

My concept of how I would like to tie these authorities together is still tentative in that some elements of the structure will require Congressional approval. What I envision is to have four people report directly to the DCI. The first will be the DDCI who will be the operating head of the CIA, just as it is today. The second person reporting to the DCI will be the director of a new National Intelligence Tasking Center (NITC). The NITC will bring together the tasking for CIA, NSA and the NRO and will: (1) be a control level to be sure the operations of the entire collection elements of the community work smoothly together, and (2) be a way to emphasize the dovetailing of these collection elements so that they properly support each other and we get the maximum return from them. The size and location for this group has not been determined yet but the core of it will come from the COMIREX, HUMIREX and SIGINT Committees. The third person reporting to the DCI will be Dr. Robert Bowie who will be in charge of intelligence production. Dr. Bowie will manage a combined NIO-DDI organization with Dr. Stevens as his deputy. The NIOs will be the principal substantive staff officers in their respective fields of assignment. They will be responsible for coordinating all the activities of the intelligence community in their areas of production. We do not anticipate any

organizationally is still part of the CIA. The fourth person reporting to me will be a Budget and Evaluation Chief. This person will be responsible for the intelligence community staff less COMIREX, HUMINT and SIGINT. This new IC function will have increased responsibilities flowing from the DCI's enhanced budget responsibilities.

The OLC, OGC, OIG, Public Affairs, and the Comptroller will remain as they are, reporting to and serving the DCI. The IG function is more critical than ever<sup>now</sup>, and I have definite plans to increase the size of his staff.

Within the Agency the above organizational changes will have a couple of impacts. In the DDS&T, it is now more critical that we retain a SIGINT and an imagery capability. This organizational change also reemphasizes the research and development role of DDS&T. Under this new organization I would anticipate some expansion of the services provided by the DDA, particularly in the area of communications and security. Within the DDO, the CI function must be maintained and probably strengthened. The President, Dr. Brzezinski and I believe with great sincerity that CA is a national asset and must be maintained in the event the nation <sup>needs</sup> ~~wants~~ that capability. I want to strengthen the overseas element of the DDO because I think there is going to be more emphasis on what we can collect clandestinely in third countries as opposed to only the objective A & B hard-target countries and their satellites. In the past five months I have conducted a major review of the DDO and I can tell you with ~~all~~ sincerity that all is very well in the DDO organization. I have asked for minor adjustments here and

there but not because there are cases of improper, illegal or immoral activities. I found several things in my overview. First, the take from the DDO is very impressive; second, the coverage is very broad and very healthy; and thirdly, that the operational performance is admirable. I have a great respect for the people in the field because of the risks they take and the privations they endure.

STAT My goals for the DDO in the future are to improve their cover, maintain their professionalism and to make it a leaner, more efficient service. In that regard, based on a DDO recommendation, we are going to take a reduction of  positions over the next 26 months. This move comes from a conviction of DDO management that since the major cutback in Southeast Asia, the Hqs element has not reduced proportionately. Let me emphasize that this reduction is not retributive, it is instead an effort to be leaner and more effective. We will take as much by normal attrition as we possibly can; beyond that we will try to offer early retirement to as many who can take advantage of the opportunity; and, finally we will reach down to those people who have ranked consistently at the bottom of their grade level. It is my conviction that in the long run this reduction will only strengthen the DDO.

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Herbert E. Hetu  
Assistant for Public Affairs

Central Intelligence Agency  
Washington, D.C. 20505  
(703) 351-7676

*5-6 Paras.*

*8-17-77*

*Mike —*

*Here at last — the best  
I could do. Terribly hard to  
make on off the cuff speech  
read right — Some of the  
d's + A's were totally impossible  
without starting from scratch —*

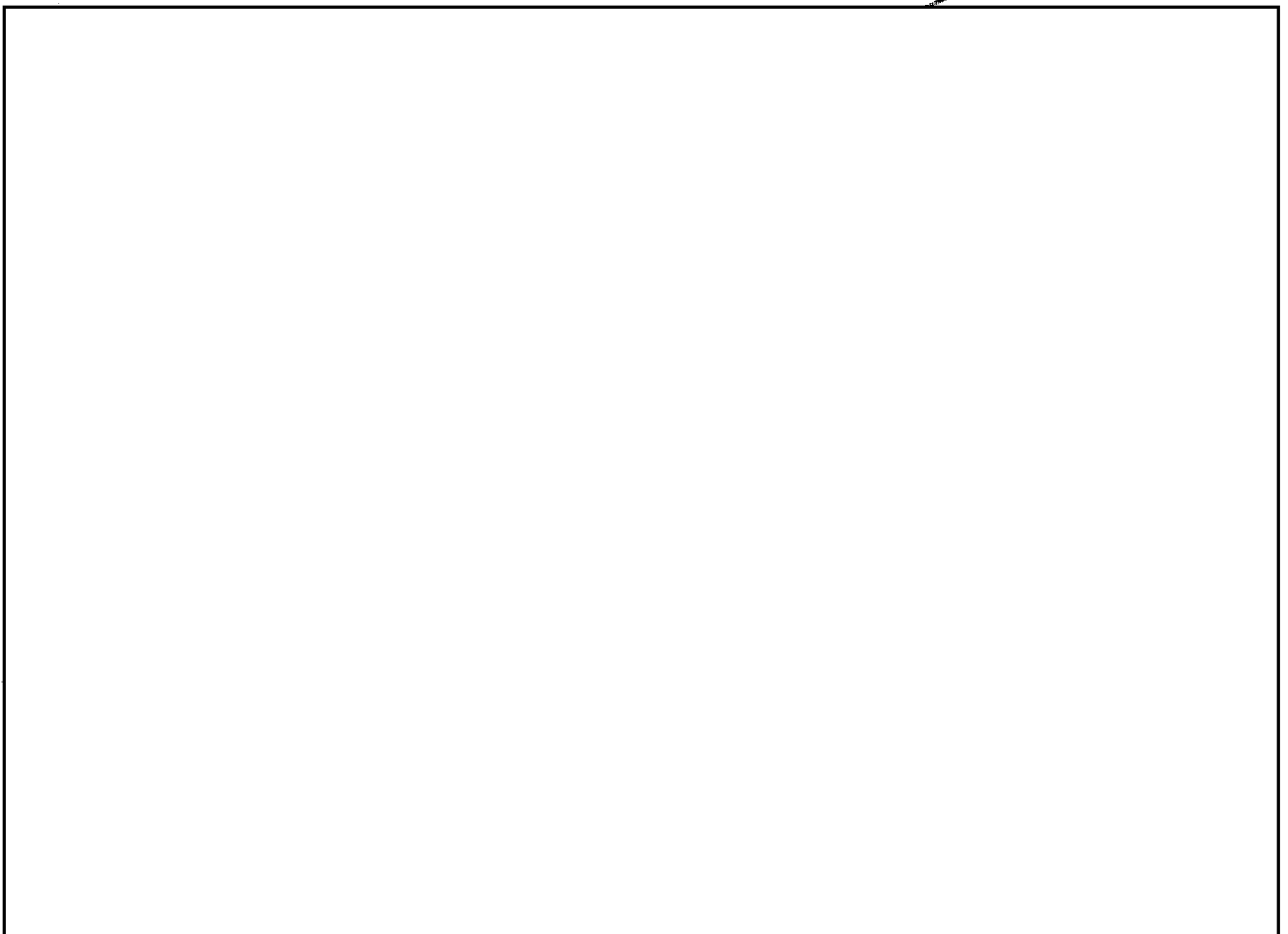
*Hope this helps a little*

STATINTL

ADDRESS TO CIA EMPLOYEES  
BY THE  
DIRECTOR OF CENTRAL INTELLIGENCE  
8 August 1977

Ladies and gentlemen, welcome to the Central Intelligence Agency's supergrade promotion exercise. The Director of Central Intelligence Admiral Turner will present the promotions, and afterwards he will make some comments regarding the recent reorganization of the Intelligence Community.

STATINTL



Let me start by saying to those who have just been advanced how pleased I am for them. What an absolutely important and sterling accomplishment it is to move into or up within the supergrades, and it is not easy. I did some back in my slide rule calculations, and those advanced today are well less than two percent of those who were available in one way or another to have shared this promotion.

One of the things that we are going to talk about today is the future. One of the things I am most intent on in the future is to continue to make this competitive, but to insure that despite problems we have around here with numbers that we are going to have a continuing flow through of promotions. That is ahead of the story.

~~I would like to take a few minutes now to share with you my thoughts. As the final verdict from Mt. Sinai has come down, and we have, as you know from last Thursday, some, not some, but we have~~ a decision by the President on this much-anticipated reorganization plan for the entire Intelligence Community. As you all know, the basic decision was made by the President to considerably expand the authority of the Director of Central Intelligence. ~~Now~~ the detailed implementation of that is something we are all working on

right now. We are redrafting ~~the~~ Executive Order 11905 and translating the President's decision into the implementing action. I, in the meantime, am working on the details of how to organize within the mandate put down by this Presidential decision. My own thinking is not entirely firm at this point, but after all the suspense we have lived through together for the past five or six months, I would feel remiss if I did not share with you my thinking in the stage that it is at at this time--so you know where I am and where the facts are as far as they are determined by this point. ~~So, that is what I am going to do today.~~ I will try to be explicit where things are still undecided and vague, and explicit where I think they are firm. When I am finished I will ask for your questions and comments, ~~so that we can be~~ ~~sure that I have muddled the waters adequately, the best I~~ ~~can anyway.~~

The basic point I would like to get across is that I am very pleased, both as the DCI and as the Director of the CIA, with the way this has <sup>BREEM</sup> worked out. ~~I AM PLEASED~~ <sup>Let me start with</sup>

CIA, with the way this has worked out. Let me start with  
~~FOR SEVERAL REASONS.~~ ~~FOR EXAMPLE.~~  
~~some of the reasons why I am pleased.~~  
~~THING~~ ~~THAT FOR~~  
 in one, we tend to overlook ~~that~~ is ~~over~~ the past six  
 months, the President of the United States, the Vice President,

the Secretary of State, the Secretary of Defense, the National Security ~~Council~~ Advisor to the President, myself, and many others, of course, have spent a great deal of time on this--put a lot of effort, a lot of thought<sup>in</sup> to it. In my view, in the long run, that can only benefit you and me. When the high-level people of the National Foreign Affairs Community of the United States get interested in and involved in the intelligence process, that is great for us. They understand us better, they know what we can do for them better, and they are going to involve us more in their policy process, and that is what we are here for. So I think we have benefited just by the fact that the review was made, and it took such high level attention and interest. I am very pleased with that.

~~LET ME TELL YOU HOW THE PROCESS WORKED.~~  
~~Now, I would like to emphasize and give you what I can~~  
~~of how the process works.~~ There has been a lot of misinformation in the media, ~~as there so frequently is.~~ The debate that we had was a very lively one. There were sharp differences of opinion, but the whole thing was done with an air of cordiality and respect. We had papers and studies and all that kind of thing flowing, but it eventually came down to two meetings of the (PRC). After two long sessions, we just could not come up with a unified position or recommendation

*Spill out!*

for the President. Not only did Secretary Brown and I have different solutions, other people had theirs, too. Between them all we had a potpourri that just could not be brought into one good recipe for a pie. So, we all ~~^~~ and quite a few of us as a matter of fact, not just the Defense and myself ~~^~~ put in our recommended solutions to the President in writing, along with the minutes of the ~~the~~ PRC meetings. The President personally reviewed them in great detail. He involved the Vice President in considerable discussions with all of us--sometimes as a group, sometimes individually--and I am sure he put in his recommendations. The President met with us, discussed the different points at hand, made sure he had all of our views firsthand, and then he came up with his decision. Now as all of you know, it is not my recommendation, it is not Secretary Brown's, or Secretary Vance's, or Dr. Brezezinski's it is a composite of them all. I am very pleased with it because I think it has given the DCI a much greater opportunity to effectively coordinate the entire intelligence activities of the country. [ ~~As I said, I recommended a different solution. I am not sure that when I recommended it I recommended it because I really felt it was the best. I did not know it was practical at this time. I thought the chances of it being inacted the way I recommended it were very slim, but the way I operate, if I really have a conviction,~~

As I said, I recommended a somewhat different

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~~I stand on it. I did in this case, and I thank my instincts~~  
~~it was not a practical thing to go as far as I had suggested~~  
~~at this time is what in fact happened.~~ I think what has  
happened is that <sup>the</sup> three new authorities given to the DCI are  
going a very long way toward what I had recommended, and I  
think will go far enough to give us what we need to be sure  
that we are pulling together as a team.

What are those three? The first is there is now  
created under the PRC a new committee of which I am the  
chairman and, as a matter of fact, I did not ask to be  
chairman, that was thrust on me. The Priorities Review  
Committee consists of the Secretary of State, the Secretary  
of Treasury, the Secretary of Defense, the National Security  
~~Council~~ Advisor, and myself. The objective here is for this  
group to establish what the substantive requirements for  
intelligence are going to be, and what sense of priority you  
and I should put in our work and all the other elements of  
the Community. I think this is a very good thing because  
setting the priorities for what we do is not our job. We  
are here to serve the policy makers, and this new organi-  
zation, which has not existed before, is going to involve  
the policy makers in our business, and that is all to our  
benefit. So that is a good step forward.

The second is the control, the full control of the budget process. I need not emphasize to all of you who have been around the government a good while what a useful tool that can be, how important it is, and what a load it is going to put on us to exercise it judicially. A great deal will come here in terms of being able to be sure that there is neither undue overlap nor, what often bothers me more, underlap between our activities.

Finally, I am, as the DCI, given full tasking authority over the entire Intelligence Community. Now this actually came about because it was one of the things that I put into my paper that went into this process, and I do not think anybody else did. My view here has been for several months now that we need to have a central place that will pull all of the ~~collecting elements~~ of the Community together. I have, as you probably know, already created the predecessor of the National Intelligence Tasking ~~Committee~~ <sup>CENTER</sup> in what we call the DCI Planning Committee that has been meeting for several months now. <sup>IN</sup> ~~At~~ that Committee we get all of the collecting agencies and all of the production agencies represented around the table. If I say to them, "The President wants better intelligence on Country Y," I do not go ~~to~~ first to one fellow and <sup>SAY</sup> ~~what~~ <sup>CAN</sup> he ~~can~~ do and <sup>TO</sup> somebody else <sup>TO SPECIFY</sup> what he can do. I point to one man who happens to be, in this case

John McMahon because the Intelligence Community Staff is operating as a staff for this committee and say, "~~Get it, get all of these COMIREX, HUMIREX, cigarettes, oops, I got their names wrong.~~ Get all these committees together and come up with a unified plan between COMIREX, HUMINT, and SIGINT to do the job for us." That is what the National Intelligence Tasking Center is going to do. It is going to (1) be a lever of control to be sure the operations of the entire collection elements of the Community are working smoothly together, and (2) it is going to be a way to emphasize the dovetailing of these collection elements so that they properly support each other and we get the maximum return from them. Where is it going to be located? Who is going to be in charge of it? Where is it going to get its staff? I can only give you one vague answer. The core of it will come from the COMIREX, HUMIREX, and SIGINTS Committees. Obviously, there will be more people required than that. ~~I believe~~ Where it is going to be located, I can not tell at this point. There are a number of options, we are weighing and assessing them, and it is going to take some time to decide. I believe that this will be what you have heard me talk about in the past sometimes as a vice-president for collection, but he will not have management responsibilities over any agencies. He will only be the coordinator of the

tasking. He will not run the CIA, the NSA, or the NRO. NSA will be run by the Secretary of Defense, and the NRO similarly as far as the day-to-day management is concerned. The CIA will be run by the Director of the CIA, but tasking for all of them will be brought together by this vice-president of collection, otherwise known now as the National Intelligence Tasking Center.

Now, that brings me almost ahead of myself, to how do all things fit together, and where does this tasking center tie in with the rest of the organization. What I am going to describe now is my concept of how I would like to tie these together. I want to emphasize in the strongest way that while most of what I am going to describe can be done within the present authorities I possess, some ~~of this would~~ **ELEMENTS OF IT** ~~tread on the fine toes of the Congress, and we will have to~~ **CONGRESSIONAL** get their approval, for certain elements of it. So, please respect my confidence. Please recognize that there is an element of tentativeness here in that ~~the degree~~ we need Congressional support <sup>with</sup> I obviously have not had any opportunity to seek ~~it~~ as yet. **¶** My tentative thought is to have four people report directly to the DCI. The first will be the DDCI who, just as now, will be the operating element of

the CIA; that is, I, the DCI, will still be the Director of the CIA just as today. You all know, there was talk about forcing a separation. ~~here~~ **WAT** This has not come about. In fact, the President very specifically and personally said he did not want it to come about, and I am very pleased that that is the way this has come out. So one of the four people reporting to me will be the DDCI, just as today. The CIA remains intact as an entity, with <sup>the one</sup> ~~one~~ exception with ~~it~~ **AND** ~~regard to the DDI~~ that I will get to in a moment. Basically, there will be no substantial change that people in the CIA will notice. **¶** The second person reporting directly to the DCI will be this Director of the National Intelligence Tasking Center and, ~~again~~ as I said before, he will not manage anything. **¶** He will have dotted lines on the chart to the CIA, to the NSA, to the NRO, and to any other collecting agencies, ~~in some sense to the State Department collection function~~. He will task all of these, including the CIA no matter what the priorities for effort are to be. **¶** The third person reporting directly will be Dr. Bowie who will be the Vice President in Charge of Production. Now, the Vice President of Production will manage directly a combined NIO--DDI organization. They will be fused together with Dr. Stevens as the Deputy and Dr. Bowie as the Director of that operation. In addition to managing that operation, Dr. Bowie will be

responsible for coordinating production with State and Defense. So, he is different than the Tasking Center boss who has only coordinating functions; he <sup>WILL HAVE</sup> some line management functions, and he has some coordinating functions. ~~Not~~ <sup>FEW</sup> Why did we do this? Because the President in this decision, it seems to me, has reaffirmed very much the DCI's role as the President's primary advisor on intelligence and the NSC's primary advisor on intelligence. And with that, I believe we can produce that <sup>LEVEL</sup> ~~kind~~ of national intelligence only by a good meshing of the NIOs and the Directorate of Intelligence. ~~We have been working on this and thinking about this for a number of months now, long before this decision was made. I have decided to end with what I think is an artificial division, an artificial organizational separation between these two groups.~~ The primary mission of the combined group will be to produce national intelligence. We must always remember that only here in the CIA do we have people producing intelligence who have no relationship to policy and that is what this combined group is really going to be, ~~and~~ <sup>I</sup> It is a very critical national asset to have that kind of a good production capability that does not relate or is not any way biased to policy considerations. The NIOs will be the principle substantive staff officers in their respective fields of assignment. They will be responsible

both for coordinating all the activities of the Intelligence Community in their areas of production and for giving general direction and guidance to the DDI people working with and for them. They will have to rely for the primary part of their production support on the DDI; therefore, I believe this change will make the DDI in effect an even more vital and even more important element of our organization. We do not anticipate any wild extensive organizational changes to accomplish this. <sup>BOWIE</sup> Bob and <sup>STEVENS</sup> Sayer will ~~in a few~~ <sup>VERY SOON,</sup> ~~days~~ <sup>OUT</sup> put their implementing instructions on this ~~and we~~ are going to go ahead with this right away. Let me say this, nobody in DDI need worry about his job. We have ~~got~~ a clear charter for more, better central intelligence of a national nature, and there is more than enough work for all. In fact, I have a very express plan actually to increase the size of the staff in the DDI-NIO complex. Also, please tell all the people in DDI that they do not have to worry that they have lost their career status, their retirement rights, their privileges of joining the ~~DIA~~ Credit Union, or whatever else it may be. The Directorate of Administration will continue to serve all the people in the DDI-NIO organization just as it does today. They are still organizationally part of the CIA. Dr. Bowie will be their boss. <sup>THE</sup> The fourth person reporting to me will be a Budget and Evaluation Vice

President, and what this really amounts to is the IC staff less the Intelligence Collection Committees, COMIREX, HUMINT, and SIGINT. Here, the IC staff in this new title will have much increased responsibilities ~~in the Budget~~ **FLOWING** ~~field as you, would of course, anticipate~~ from the full budget responsibilities that the DCI will be shouldering.

Philosophically now, let me look why we are proposing this four-phase organization. The National Intelligence Tasking Center is to bring together all the collectors. The NIO-DDI, and Vice President for Production are to bring together all the production elements. ~~Now~~ I am fully aware that you <sup>**MUST**</sup> ~~have also got to~~ bring the producers and the collectors together. I happen to think at this time we need particular emphasis on bringing the collectors together with collectors and the producers together with producers. ~~I~~ <sup>**ALSO**</sup> ~~would also say that~~ I would anticipate that a combination of <sup>**GUIDANCE FROM THE**</sup> the/priorities board and ~~its guidance~~ and the controls of the Budget and Evaluation Section are going to force a close coordination between the producing and the collection elements, ~~and we have got to have that as an essential part of our intelligence operation.~~ I do not want to forget the important elements of OLC, ~~and~~ OGC, ~~and~~ Public Affairs, <sup>**and the**</sup> Comptroller, Inspector General. Basically, they will remain

as they are today reporting to and serving the DCI. It is possible that sometime in the future we will separate out like functions to serve just the CIA, but that is by no means decided at this point. Life for them will go on in much the same style<sup>As</sup> it is now. <sup>4</sup>I would like to say that I have definite plans to increase the size of and to stress the emphasis on the importance of the Inspector General function. We have more and more people doing oversight of us, and I, therefore, feel that it is absolutely essential that we stay out ahead of that by doing our own internal oversight--is that innersight, <sup>?</sup> ~~I do not know~~. The Inspector General's function is more critical than ever. Speaking of the criticality of the primary functions here in the Agency, let me quickly go through the other three Directorates I have not mentioned and talk about each one of them and my view of where they are going in the future. Let us start with the Directorate of Science and Technology. Here, the organizational changes I have described have a couple of impacts. First, it makes it more critical, in my view, that DDS&T retain a SIGINT and an imagery capability in-house. As the DCI, it is absolutely vital that I have available to me that kind of expertise that reports to me and is loyal to me. I also think that it is increasingly important under this concept that we continue to have the competitiveness

that has to come to benefit the entire Community over the years of the ingenuity and the ability and skill of the DDS&T's SIGINT and imagery operations in competition with those of NSA and NRO. Secondly, this organizational change, it seems to me, also reemphasizes the research and development role of DDS&T. Here again, in the imagery and SIGINT areas, we are going to need somebody who is looking at the research and development area from a national point of view, not just a military point of view in developing the kinds of gadgets, the kinds of techniques that are going to push SIGINT and imagery forward into the future. In addition, of course it is critical that DDS&T do the research and development for the clandestine service, nobody else can or will. Beyond that I just think the record of DDS&T in injecting new ideas and injecting imagination into the R&D process of the entire Intelligence Community has been superb over the years and must be preserved. Lastly, of course, the   is growing **STATSPEC** rather than shrinking in importance <sup>CE</sup> in my view, and therefore it remains another essential element of the DDS&T family.

Moving on to DDA, there certainly will be no diminution of the need for the support that DDA provides to all of us, and, **I** In fact, I would anticipate a likelihood under this **NEW** organization ~~one-time~~ <sup>OF</sup> some expansion of the common

~~DATA~~

services that they provide--particularly, the common services of communications. I am personally somewhat concerned at the duplication of intelligence communication channels, and I would like look into the DDA taking a more active role in a Community-wide area there. I am also very, very, concerned and interested in strengthening the security function of DDA. It is a digression right now, but I want to say to you, the top people here, this is one of my greatest concerns today in the intelligence world. As a nation <sup>in</sup> handling national intelligence <sup>when</sup> it gets to the national debating level, we are absolutely like a sieve, and it ~~has just got~~ <sup>MUST</sup> ~~to~~ be stopped. Our industrial security is horrendous; it is just terrible, from what I have seen of it. I would say in all candor to you that right here in the CIA we have got to tighten up. We are very good in some areas; we are very lax in others. The security function is just critical; there is no point spending all this money to get secret information and then have it published in the newspaper, as it seems to be almost everyday around here.


Well, that moves me on to the DDO because there, too, ~~in the counterintelligence function that they have, that has~~ <sup>must</sup> ~~got to~~ be maintained; it has probably got to be strengthened. I have a particular concern ~~there~~ that we have to be, ~~I~~

~~believe~~, more alert not only to counterintelligence against people, but counterintelligence against technology. We must be sure that we are bringing both of those counterintelligence functions together in the future so that we are making every effort we can to deny potential adversaries information of value common services of communications. I am personally somewhat to them that we just give away too freely. Next, under DDO, is covert action. The President, Dr. Brzezinski and myself, ~~I know~~, all believe with great sincerity that covert action is a national asset that must be maintained. The day may come when the nation wants covert action in a way that it has not even thought of today, and you and I would be found wanting if we had not kept that capability strong. There is no question that there is a disinclination in the country today to use covert action. We must maintain that capability--paramilitary and the whole works--for the day that it will be called upon. I am dedicated to maintaining that capability. I believe we are all going to want more clandestine collection, the other principle function of DDO, in the years ahead. We are going to want to strengthen the overseas element of the DDO. I think there is going to be more emphasis on what we can collect clandestinely in third countries as opposed to just the objective A and B hard-target countries and their satellites. I think you can see

this if you will look at President Carter's foreign policy, Dr. Brzezinski foreign policy and philosophy, and Mr. Vance's attitudes. I think that there is every sign that the country is going to put more emphasis in the years ahead on our relationships--friendly, adversarial, economic, political, and military--with the non-hard target countries as well as, of course, a continuing absolute demand to know what is going on in the Soviet Union and China. I do not want anybody here to misinterpret this; this is no instruction to start sending signals to the Chiefs of Stations saying shift your target area. Because I do not know whether what I am saying means that it is going to be a totally additive requirement that I <sup>AM</sup> going to give Bill Wells or whether there is some such substitution involved here. In any event, each country, each case will have to be weighed on its own after detailed review. So, please do not misinterpret me and start sending out new signals. All I am saying is that the emphasis on clandestine collection for these reasons is in my view bound to go up. I see it as the best source of secret political information that we can get. I see it as of increasing value and importance to complement other sources in the economic area which is getting increasing stress throughout our intelligence activities. I also see it as a very important element in keeping our SIGINT and our imagery

speaking about  
viable in the years ahead in helping us to know how and  
where to target. While I am ~~on~~ the DDO, I know that ~~over~~ <sup>in</sup>  
the ~~past~~ five months that I have been here, I have generated  
concern because I conducted a major and extensive review of  
the DDO operations, ~~and~~ <sup>=</sup> I hope most of you involved in that,  
particularly in the DDO, have understood ~~that and perhaps~~ <sup>WHY THAT WAS DONE</sup>

AND would not respect me if I had not. I was given a clear  
mandate by the President to be sure that the way the DDO was  
operating was within bounds of legality and the President's  
sense of ethics and propriety. Knowing how hard pressed I  
would be in the first few months, I asked  STATINTL  
to be my primary point man in that effort, and he has done,  
in my view, a splendid job. His review of the Headquarters  
side of the DDO operations is complete. <sup>The Review</sup> ~~He~~ has been given  
<sup>To</sup> ~~me~~ <sup>in</sup> ~~4~~ 11 notebooks which I have read through. I can tell  
you with great sincerity that both Rusty and I feel that not  
only is all well, but all is very well in the DDO organization.  
I have met with Bill Wells, and we have not finished yet  
with meetings on all the 11 notebooks, but <sup>we</sup> ~~A~~ have been  
through them enough to know that the next meetings with Bill  
are going to be like the last ones. I am asking for minor  
adjustments here and there. These are not because there any  
horrendous cases of things being run wrong or improperly or  
illegally or immorally or anything like that. These are

matters of tone, matters of style, matters of judgment; but they are nothing of earthshaking significance. We are going through them one by one, and we are getting things in line where I feel comfortable, Bill is comfortable, and we know just how things are operating. I found in my overview, with Rusty's help, first of all that the take from the DDO is very impressive. Secondly, that the coverage is very broad and very healthy in that regard. It is not narrowly confined to one area or another. I find that the operational performance is admirable, very admirable, and I speak not only with respect to the people in the field for whom I have engendered a great respect in particular because of the risks they take and the privations they endure, but also for the people who are at Headquarters who administer them and give them their guidance. My goals for the DDO in the future are to improve their cover. We have serious problems there, not their fault particularly, and I want to give maximum support to improving that situation. Secondly, to maintain the same professionalism that we have today through good training, through good inspiration. Thirdly, to maintain a professional officer corps of clandestine service people of about the same size that we have today. Fourth, to make it a leaner, more efficient service overall.  Last summer, 1976, Bill Wells undertook a major study of the DDO and its structure, and he came up with a three-phase program for structuring or restructuring the DDO to be executed over

seven or eight years until 1984. Phase one was executed last summer; phase two was scheduled for this summer. ~~He gave me phase two a few weeks ago.~~ It called for a very substantial reduction in the overhead of the DDO to be carried out between now and 1984. ~~We~~ <sup>we</sup> made two changes in ~~his~~ <sup>the</sup> plan-- ~~reduced the number of people to be reduced, I made it a smaller number,~~ and ~~I~~ <sup>e</sup> compressed it into two years and a quarter rather than than seven, ~~or eight.~~ So, based on the DDO recommendation, thus somewhat reduced but compressed, we are going to in the next 26 months take a reduction in the DDO size of about 800 and some people--positions. Now this is a phased plan, and it comes from a conviction of the DDO management that since the major cutback in Southeast Asia, the Headquarters element has not reduced proportionately. I know that even since I have been here and listening around and talking with groups and individuals, there is a great deal of opinion in the corridors that the DDO being overmanned has a lot of people who are under employed. If there is one thing I would like is to be sure that every employee in this Agency feels a full sense of challenge, a full sense of contribution because without that you cannot have a full sense of reward. Let me emphasize in the strongest terms that this 800 reduction is in no sense retributive, it is instead an effort to be leaner and more effective. It is

not really a reduction as much as it is an elimination of surplus personnel. It will be carried out in as considerate a way as we possibly can. For instance, we will take as much by <sup>NORMAL</sup> attrition ~~that comes normally~~ as we possibly can. Beyond that we will try to take as much from early retirement so that other people who have a few years left before they qualify for retirement will have an opportunity to do so. Beyond that we will reach down to those people who have been consistently graded in the bottom of their category-- the bottom five percenters or ten percenters or whatever it may be. About half, maybe a little more than half, of the cut will be taken in the Fiscal Year 1978 and the other in Fiscal Year 1979. Those to be asked to leave in Fiscal Year 1978 will be notified not later than the first of November; no one will be required to leave before the first of March of 1978, five months notice. For the Fiscal Year 1979 plan, all those being asked to leave will be notified by the first of June of 1978, but nobody will be asked to go before the beginning of the Fiscal Year which is the first of October, some four months later. There will be a higher proportion of cut in the more senior grades than the junior grades. The purpose of this being several fold. One, there is a great tendency when you cut large organizations to end up being top heavy and that does not do the organization any

good. Secondly, as I mentioned in the very beginning, we must maintain a flow through opportunity. This is a virile, basically young organization, and our future depends on our continuing to attract and retain the same type of high-quality people that we have today. We have got to provide them opportunity. Thirdly, of course, the more senior people are more likely to have an opportunity to retire rather than to have to abandon the equity they have in the government. Let me reaffirm with great conviction that I approve this elimination of these surplus people only on the conviction that in the long run it will strengthen the DDO organization. Let me say, without casting shivers through the audience, that we are going to have to take the same kind of look for surplus people in all the Directorates. I have no thought whatsoever that there is anything like an 800-man surplus anywhere else. That is a unique situation in the DDO due to the fluctuations <sup>caused by events in</sup> over Southeast Asia, ~~but~~ <sup>however,</sup> with the intense scrutiny that we are going to have in the years ahead from both the Congress and the OMB, we ~~have got~~ <sup>must</sup> ~~to be on firm ground~~ <sup>— must only</sup> ~~that we have~~ <sup>what we need</sup> and nothing more. ~~I would always rather volunteer to cut than I would to be cut if we in fact do not need it.~~ I have not made any judgment on any of the other Directorates at all. Let me wind up by saying that these past five months, I spent a

great deal of my time just getting to know you, getting to know the Agency, getting to know the Community, getting to know what my role is supposed to be as the principal intelligence officer of the country. I have had to spend a lot of time studying organization, purpose, and how to make the Community more efficient and effective. I am breathing easier now; the time has come to look ahead rather than to look inward and backward. The President has demonstrated particular trust and confidence in us by giving us new emphasis, new authority, new requirements, <sup>and a</sup> new sense of priorities. ~~and I in particular within my hearing and, I know,~~ <sup>he has</sup> ~~within yours publicly also praising~~ <sup>ed</sup> the confidence and the dedication of the CIA, ~~in particular~~. I was told when I first came here by each one of the former <sup>LIVING</sup> DCIs, and I spoke with all of them, that I could find in the government of the United States no more dedicated, loyal, or competent group of people than those in this Agency. Although I have been loyal to a different agency of this government for some 30 years, I have to agree with those people. This is the top group of qualified, loyal, and dedicated people that I have ever worked with. I believe that the qualities you have are now going to be put to the test more than ever before because we do have a new charter, a new responsibility under this reorganization. Now, we have got to deliver and I know I can count on you to do it. Thank you.

Where is it muddiest? Anybody like to lead off?

Q. Sir, will these four vice presidents that you spoke of, do you visualize that they will become elements of a larger legal entity organization with some kind of a name on it? If so, what do you think that name will be?

A. The only way I think that could come about is if we took something like DDA and had its common service element attached to the DCI rather than the CIA. I do not know that it would ~~have to be named~~ <sup>need</sup> a single name like CIA. That would just be creating the CIA all over again in terms of its original concept and charter way back in 1947-49. That concept and charter really has not worked out the way the Congress intended it, and so I think what I am trying to do here is create that same thing over again, but not ~~give it a~~ <sup>create</sup> ~~new~~ name, ~~like that~~. The CIA will retain its identity, and it ~~could be as I say, I do not have this worked out in my own mind yet--that~~ the common services instead of coming out of the CIA would come out of the DCI and just be the DCI's services, and you would have a CIA and a Vice President for Production and, a Vice President for Tasking, and Vice President for Budgets. Those are sort of legal, organizational nuances, and I do not really think they will affect the

position, the rights, the privileges, the retirement benefits, and so on of any of the individuals in our organization. ~~We have got complications, and the reason I am being hesitant here is, of course, the Congress has been driving for an IC staff that is not under the CIA. I mean that people have a separate entity and that is confusing life,~~ and we are going to have to sort that out as to which way the Congress will let us go because this is the kind of thing that will require definite Congressional approval if we make any changes

Q. I am interested in your views on the need for competing analyses. You are going to merge the DDI with the NIO structure and strengthen the numbers involved in this process. Will this not create a rather powerful assessment force which would tend to override or dominate INR and DIA and their abilities to present not only departmental but national intelligence?

A. ~~Can you hear that in the back?~~

That is a very good question, and it is one that people have raised the media. I <sup>must</sup> ~~would~~ say that I am certainly dedicated to overlapping in competing analyses. It does not seem to me that we should let the DDI-NIO become substantially more proficient in military analysis <sup>DIA.</sup> ~~in the DDI.~~ They should be good competition for them. It does not seem to me that we should let the DDI-NIO become vastly superior to the

INR political analysis. I think we have got the monopoly on economics; I do not think anybody touches our potential there. I certainly want to see that overlap from the military on the one side and the political on the other with us having the capability to do all three disciplines very well. I think the real answer to your question is I do not view the NIOs and the DDIs as that separate or competing today. I think they are <sup>dove</sup> ~~ex~~tailed together, but I think they are <sup>dove</sup> ~~on~~tailed in an inefficient way. This bringing together will get better return for our money. I certainly do not want to be a czar of intelligence production. ~~I think we ought to have it (I do not want to use the word because it will get misconstrued), but~~ I do think that there has got to be more unity in the collection side. That is where the money is, and that is where the real errors can be. If you do not collect properly, you will leave a big hole in there. In the production-analysis-estimating side, we <sup>must</sup> ~~have got to~~ have overlap competition. We can afford it, and we must have competing views going all the way forward. ~~We will have to watch what you say very carefully as we move ahead.~~

Q. I remember you spoke of strengthening counterintelligence. Does that mean or may we take for granted that the President has approved the establishment of a national counterintelligence committee as discussed in PRM-11?

A. No. That has not been finally decided as yet. We have really only bitten a piece of the PRM-11. There are other **S.** ~~we~~ have bitten off one piece with the wire tapping bill which has already gone forward to the Congress. We have bitten off this piece which is the fundamental structuring of the Community, but the piece that what was really PRM-11, part I, is still gestating up through the decision process and has not reached the PRC let alone the President. But we have got to have something like that.

continuation of question....

A. Oh, I think we will get to that in September. You know everything is sort of in a lull right now. Tony, have you got any prediction on that?

I really do not. I think September is as good a guess as I could make.

We have plenty of cooperation with the Attorney General, ~~but they do not move too fast.~~ There is sort of a waltz going on. The Attorney General wants to make me the Chairman of the Counterintelligence Committee, and I want to make him the Chairman of the Counterintelligence Committee. I only want to get out of it because I just do not want the CIA, in particular, associated with domestic activities, and

counterintelligence has to be domestic, too. The Attorney General has his reasons for not feeling it is good for the head justice man of the country to be that publicly in charge of counterintelligence activities. So there is that one basic difficulty of who is going to head this committee organization. It could go to the National Security Council, or it could go to some third party. I suspect it is going to end up on my shoulders. I do not know. I am not going to fight it, but I want to make the proper position here that I do not think it is necessarily the right place for it. I would appreciate your views on that.

Q. With your assumption of full budgetary authority of the Intelligence Community, is there an intent for you to have an appropriation of your own, and will it be an open appropriation, either single one-line item or otherwise?

A. No. There has been no decision on that yet. As you know, the Senate Select Committee voted nine to eight to disclose a single budget figure. They have not yet, ~~I guess it has been two months now, or more, taken it to the Senate floor for decision.~~ <sup>IT WILL GO TO THE SENATE FLOOR</sup> Whether ~~they will or not~~ <sup>IN FAVOR OF —</sup> this session, I do not know. If they did vote <sup>that</sup> whether we would then ask for separate appropriation ~~there~~ with everything hidden under ~~the~~ one figure, I do not know either. I have not really thought that one through. If they do not, of course,

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question. Though the intent of the Presidential decision is that not only will the DCI formulate and present to OMB, the budget to the Congress and justify it before the Congress, but he will receive the appropriated monies through OMB or from OMB and disperse them or not disperse them, as the case may be, to the appropriate agencies for whom they were designated by the Congress. The control will be up and down.

Q. As the chief control of the strategic reconnaissance resources, will your control also extend to tactical reconnaissance?

A. No. If the element is not in the national foreign intelligence budget, ~~then I will have (Is John McMahon here? Sorry. John I have been looking for you down here.)~~ We ~~put the term in the Executive Order about the~~ **EXERCISE** advisory tasking. ~~Is that the word? Right, advisory tasking.~~ I have full tasking over all the elements in the national foreign intelligence budget. Now, if the Defense Department leaves the airplane in that budget, it is mine to task--as are a lot of the SIGNIT airplanes. If it is a tactical element in the Defense budget as opposed to the NFIB then we have advisory tasking. I mean if we want a tactical element

to try to do something ~~good~~ for the national element we, in effect, ask them and let our requests be known. Of course, they do the reverse, ~~too, with the national.~~

Q. Admiral, the NIOs have been responsible for estimates and special estimates of national intelligence up until now. Do you see their role expanding into other kinds of finished intelligence in view of the NIOs to the DDI?

A. The NIOs are responsible for national estimates and national production today. Do we see any expansion of that with the merger of the DDI? Bob, do you want to try that?

2. Dr. Bowie: ~~I do not, off hand.~~ I think Mr. Stevens and I visualize that there would be more involvement in the preparation of estimates which would be only those through the DDI for example. For the purpose of multi-disciplinary and other types of estimates which might require different offices of DDI.

I am sure we gave you what you wanted, Robert, I think the answer is basically no. The NIOs will be sort of the top of the pyramid of this now consolidated organization. They will be the contact point with the policy makers. They will be the contact with those other elements of the National Intelligence Community to bring together what must be national estimates. Now, feeding into that will be what

the DDI comes up with, but they can not, for instance, as was brought out here. If they are doing a military estimate, they can not ignore the DIA's position. Right? So they will have to be the one that merges that.

Dr. Bowie: I would try and answer the question about additional functions. The assumption is that they will continue to perform the existing functions with respect to the coordinating of national intelligence in which there is participation by the DIA and by the INR. The additional function would be the one I described; namely, some effort also to coordinate in-house estimates which might not involve INR or DIA but which might involve several offices of the DDI. The principle function will continue to be essentially the Community function, or the function of pulling together the different components of the Intelligence Community for the purpose of producing what is commonly called the NIEs.

Q. How do you see the interrelationship, if any, between your production and collection vice president's with expected product evaluation?

A. How do we see the vice president's production and collection interfacing with respect to product evaluation? I think that has got to be stimulated by the DCI himself. It has got to be part of his NFIB responsibilities to use

that Board as his way of taking reports that have come out of the Budget and Evaluation Vice President, for instance, as a stimulus or tasking the Board itself to look at various products, to look at various situations and opportunities that were presented missed opportunities, bad results, good results, and try to see what this Board as the DCI's principal advisers for overall community matters recommends be done better or differently in the future.

Q. Admiral, with respect to the IG function, what requirements, if any, will you levy on DIA, NSA, or will you levy any requirements at all?

A No. The Presidential decision has a phase in it about the Inspector General functions remaining basically where they are. So I do not have a license to go in and conduct an inspection of the DIA. The old Executive Order had something about I was to assure there were Inspectors General. It was really not very meaningful. I am not sure what wording we will end up negotiating into this one, but I do not see a major strengthening of a Community Inspector General function. I am not sure that that is proper. I started at one point to argue for a Community Inspector General, regardless of how the line of authority went with NSA, but you do not really think you like somebody coming in and inspecting your house when you the boss of it. I backed off on that one,

frankly. It is a problem, and I would like to have that ability, but that is one of the compromises we have had to make here. I think we can work around it satisfactorily.

Q. Admiral, regarding the reduction in the DDO, how was the figure 800 plus arrived at?

A. Well, as I mentioned, Bill came to me with a larger figure, and it was my feeling that I didn't want to take that much risk. I wanted to have if necessary still a little surplus, in part because I am anxious if we can get authority to increase the overseas contingency. I want to have that opportunity anyway, and so I arbitrarily without scientific calculation reduced his figure to this number.

Q. Admiral, under the new organization, it appears that there will be four deputies. Will there be one DDCI, or will there be four DDCIs, and will these deputies require confirmation by the Hill, by the Senate?

A. This again is a question that can only be answered after we have negotiated with the Congress. The DDCI is a statutory position right now, and he is the number two fellow in the Community really, because he's the only other Presidential appointee. So if the Congress does not want to change that, that is your answer. My view would be that I

would rather have four cocqual people in this spot. That way it gives me a little more flexibility. There are times when I want somebody to represent me in a PRC meeting, or some place, that you know, and the DDCI just does not happen to be as well qualified for that particular function. So I would rather have it that they are all on the same level. When I go out of town, as I am going to go on Wednesday for a week of leave, I would pick one of them and pat him on the shoulder and say, "For this week you are it." It might vary according to the personality, it might vary in accordance with what was going on that week, and what I thought was going to have to take precedence. Whether they should all be statutorily confirmed or not. My only hesitation is I think they probably should be. My only hesitation is you get too much graven in statute and it is hard to change and adapt. I think I am balance if I could I would just as soon not have them statutorily approved. That is one I have not thought through, nor have I even talked to any of the key people about.

Q. Admiral, people in the DDI are already asking the question--are we no longer employees of the CIA? What is the answer?

A. You are employees of the CIA, and there is no way I can change that. You have to go to the Congress to change that.

We may or we may not, but we will not go to Congress to

change it unless every right, privilege, and benefit is fully protected. That is part of a much bigger issue and probably is some time down the pike. There is no way. I mean, the NIOs all belong to the CIA today. Right? A good bit of the IC Staff belongs to the CIA. Is that right or not?

Mr. McMahan: Legally, all of it.

A rose is a rose is a rose, I guess. Please assure people of that. You know somebody came up to me and asked, "Can I still use the Credit Union down here?" For heaven sakes, we are not going to do anything to jeopardize people's rights or benefits and so on. There is one thing I believe in that an organization like this is built on people. If you do not take care of your people, you have not got anything left. I am not going to let any of the people be run roughshod over by any kind of organizational stuff. We may want to shift the organization around over a period of time, but we will never do it without being assured that it is equitable and it protects everybody's interests and rights and so on. Nobody's retirement is going to be put in jeopardy, and nobody's CIARDS are going to be run down the drain. There is no way until we get legislation, and I cannot possibly get legislation through until next spring. You know, the Congress will not even be back until after Labor Day, and they abandon ship on the 21st of October. I have got to stop using that nautical terminology. I am trying, but it is hard. Anyway, we are not talking about anything imminent here in any event.

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Central Intelligence Agency  
Washington, D.C. 20505  
(703) 351-7676

Herbert E. Hetu  
Assistant for Public Affairs

26 AUG 1977

8-19-77

*Admiral -*

*Here are proposed  
items for the next*

*DCI notes —*



STATINTL

DDI Registry  
File 14M 1-2

### REORGANIZATION

As I mentioned to the two groups I addressed in the auditorium on 8 and 9 August, I am very happy with the President's decision on reorganization of the Intelligence Community. (The actual decision was published in Director's Notes #9 of 5 August.) The principal points in the President's decision were:

- (1) To create a high level committee chaired by the DCI to set priorities for collecting and producing intelligence so as to meet the needs of our consumers.
- (2) To give the DCI full control of the budget for the National Foreign Intelligence Program.
- (3) To give the DCI full control of the operational tasking of all intelligence collection by elements of the National Foreign Intelligence Program.

4 These actions will strengthen the role of the DCI, and with it the importance of the CIA. They will not require any substantial changes within the Agency. I have decided, however, to ~~effect~~ one reorganization within the Agency which we have been contemplating for some time. This is the merger of DDI and NIO.

Dr. Bowie, Dr. Stevens and I all believe that a closer association between these two production elements will strengthen them both. Details of how this merger will be accomplished are being published ~~right now~~ separately.

Beyond this internal matter, there will be some rearrangements within the Community, such as ~~creating~~ <sup>CREATION OF</sup> a National Intelligence Tasking Center to fulfill the role of centralizing the control of collecting intelligence. The details of how this and related changes are made will require approval of Congress and others and hence are not firm at this time.

I am pleased that the principal uncertainties involved in the reorganization question are behind us and that we can concentrate even more on our task of providing good intelligence.

MKULTRA DOCUMENTS

The reception on the Hill to <sup>our</sup> my testimony about the newly discovered documents on MKULTRA ~~DRUG AND OTHER TESTING~~ activities and press coverage of the story to date are encouraging. Our decision to come forward promptly and openly on the new discovery, I believe, was correct. Had we <sup>DELAYED FOR FURTHER STUDY</sup> ~~electe~~ another, more secretive course of ~~AND ANALYSIS,~~ ~~action~~ I am convinced the documents ~~[surely]~~ would have found their way into the public domain and ~~[to our detriment]~~ would have been treated in a far more sensational manner. ~~[And of course, being forthcoming is part of our responsibility under both the legal requirements and the spirit of the Freedom of Information Act.]~~

We have now sanitized and released to 28 requestors more than 3,300 of the estimated 5,000 pages discovered. <sup>THIS WAS TAKEN UNTOLD HOURS OF DIFFICULT</sup> ~~Many~~ thanks to those who are working so very hard on this project. <sup>AND I COMMELO HIGHLY AND EXTEND MY PERSONAL</sup> ~~DEDICATED EMPLOYEES~~

As I indicated in my testimony, virtually all the activities discussed in the new documents had been reported previously to the appropriate Congressional Committees, including the Church Committee. However, the new documents provided additional information about those activities in the form of the names of universities and institutions which had been involved, unwittingly or wittingly. The Senate Select Committee on Intelligence now has the unsanitized version of all the documents. Moreover, we have in the past few days sent letters to each of the universities and institutions informing them of the fact that the Agency has uncovered new information which names them as having participated

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in some way.

OUTREACH

I hope you are as pleased as I am with the positive reaction we have received from the "60 Minutes" program on the Agency. I am convinced that such activities further our objectives of seeking better public understanding of what the Agency does and why, and getting our explanation of Agency activities promptly before the public.

You might be interested in some of the proposals that are in the "talking" stage. I have agreed in principle to appear on the ABC-TV program "Issues and Answers" in the fall. We will also permit ABC's "Good Morning America" to film within the Agency ~~[and to interview me and other Agency officials]~~ for an hour program they are planning in connection with our 30th Anniversary. ABC has agreed to confine all filming to a single Saturday to simplify security .

~~NBC is anxious to prepare a positive program on the Agency, and we are in the early stages of discussing what subject matter might be addressed and in what format. To that end they are sending two senior researchers to work out of the Public Affairs Office to obtain background information. U.S. News and World Report is preparing a "state of the world" special feature based on CIA analytical thinking.~~

Contrary to recent news reports, we still have not made a decision on public tours. We are awaiting completion of the exhibits, after which we will run the tours for families of employees, probably near the end of September. Only then, with your help, will we decide whether to permit tours of any type of the Agency.

SECURITY

In a speech in Los Angeles on 12 August, I expressed my deep concern with several evidences we have had of laxness in industrial security, e.g., the Boyce-Lee espionage case. I described my firm intent to tighten up through more frequent surprise inspections, withdrawal of security clearances where warranted, and more emphasis on security in the awarding of contracts. Industrial security, however, is not solely the concern of industry. We, too, at the Agency play an important role from many of our offices. Some are concerned with supporting industry's efforts, some with inspecting, and many of us deal with representatives of industry daily and must set a good example of security consciousness. Please give this serious problem your <sup>immediate</sup> ~~best~~ attention.

ACTIVITIES IN SUPPORT OF THE DEAF

<sup>WOULD LIKE YOU ALL TO KNOW</sup>  
~~I have learned~~ of the excellent work of the Deaf Sign  
Language Study Group which supports and assists those who are  
deaf and those who work in offices where the deaf are employed.  
<sup>WAS most</sup> ~~I am tremendously~~ <sup>TO LEARN</sup> impressed that we already have two groups  
studying sign language. I am also delighted to find we have  
a Self Study Center through which videocassettes of interest to  
the deaf are available. This is a program which I strongly  
support and will be following with great interest.

NOTES

I consider the "Notes" one of ~~the~~ <sup>my</sup> principal means of communicating directly with each of you. ~~Spending~~ <sup>MEETING WITH SMALL</sup> to groups, ~~of trainees~~, appearances in the auditorium, informal lunches and special memorandum are other principal ways I try to keep you abreast of my thinking on matters of concern to all of us.

I continue to hear complaints that the "Notes" are not finding their way to all employees. I believe sufficient copies are printed. So I urge that all supervisors circulate them as expeditiously as possible and urge ~~all~~ employees to share them with each other.

~~I also call to your attention that~~ Copies are placed on many office bulletin boards and on the main bulletin board near the Credit Union in the Headquarters building.

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In the next issue of the "Notes" I will discuss the status of the Agency's relations with the Academic Community, a matter that is of considerable concern to all of us.

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Registry  
File OTM-1-2

# **Notes from the Director**

No. 11

25 August 1977

## **CIA RELATIONS WITH ACADEMIC COMMUNITY**

In May of this year, Harvard University published guidelines for relationships between the University and intelligence agencies. In brief, the guidelines state that:

- the existence of any CIA-university contacts must be public
- private consultation arrangements must be reported in writing to the dean and president
- CIA recruiters must be identified to dean, president, and placement office in writing
- Harvard community members may not volunteer names of other members without their permission
- Harvard community members should not undertake intelligence operations for the CIA.

In correspondence with President Bok of Harvard on this subject, I have made the following points:

"... American scholars who have been willing to share information and interpretations of developments in the international arena often have contributed valuably to intelligence support of the U.S. foreign policy-making process. Without the continuing assistance of the academic community, our ability to provide the President and other senior officials with objective and enlightened analysis and estimates would be hampered. I believe strongly that in this increasingly complex and competitive world it remains in the best interests of both the academic and intelligence communities to expand and refine their contacts in a spirit of mutual respect and understanding."

"... Current CIA policy covering our relations with American staff and faculty members of U.S. academic institutions is already, to a large

degree, consistent with the Harvard guidelines. Present Agency policies may be summarized as follows:

All of our contracts with academic institutions are entered into with the knowledge of appropriate senior management officials of the institution concerned.

All recruiting for CIA staff employment on campus is overt.

It is against our policy to obtain the unwitting services of American staff and faculty members of U.S. academic institutions."

"... I take exception to the provision in your guideline which requires your faculty members to report such arrangements in writing to the dean of their faculty. . . . I believe that attempts to regulate the private lives of our citizens in a manner discriminatory to any particular group, profession or segment of society poses serious risks. I believe that we would be far safer not to single out any group, despite what may be transient enthusiasm for so doing. In point of fact, it is our policy in these cases to suggest to individual scholars that they inform appropriate officials at their universities of their relationship with CIA. Frequently, however, scholars object to advising any third parties on the understandable grounds that to do so would violate their constitutional rights to privacy and free association and possibly expose them to harassment and damage to their professional careers. . . . Thus, the decision on whether to advise their institution of a relationship with CIA is left to the discretion of the individual. We intend to continue respecting the wishes of individuals in this regard."

This issue, of course, transcends the relationship with academics. All American citizens must continue to have the freedom to choose whether or not they want to cooperate with any government agency, and, if they choose to assist the CIA in its work, we must be able to ensure the confidentiality of that relationship.

## **PROPOSED INTERNAL REVENUE ACTION ON ALLOWANCES**

I share the concern of our operating components and the employees overseas with respect to the possible repeal of Section 912 of the Internal Revenue Code, which would mean that allowances paid to employees at foreign posts would become taxable income to them. The matter of employees' entitlements has been discussed at the President's Cabinet meetings, and I assure you that the agencies and departments concerned are acutely aware of the implications and the impact it can have on morale. The Secretary of State and I have sent letters to the Secretary of the Treasury to urge that the provisions of Section 912 be retained. Copies of these letters have been

disseminated to the overseas posts and to the Headquarters components which support them, and I assure you that the Agency will do whatever it can to preserve the entitlements of our employees overseas.

A handwritten signature in black ink, appearing to read "Stansfield Turner", with a stylized, cursive script.

STANSFIELD TURNER  
Director

STAT

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OFFICE OF THE DIRECTOR  
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Date: 4 AUG 1977

TO: Dave  
FROM: EA  
SUBJECT:

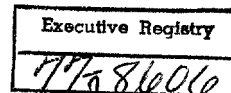
FOR DCI  
Notes

REMARKS:

Please chop through  
Jack Baker before  
going to Press.

ACTION

For Adm T  
Em Cdr T



Director's Note on  
CIA & Academic relations  
per your request.

It's long, but I think  
it needs to be to be  
comprehensive and to  
fully express the issues  
and your philosophy.

VR

Dodge

ACTION

DDIA Registry  
File 04M 1-2

CIA Relations with Academic Community

*all copy, no underline.*

In May of this year, Harvard University published guidelines for relationships between the University and intelligence agencies. ~~They are important because of the precedent they set and because of the influence this action could have on other academic institutions.~~  
In brief, the guidelines state that:

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- °Harvard community members should not undertake intelligence operations for the CIA

In correspondence with President Bok of Harvard on this subject, I have made the following points:

<sup>on</sup>... American scholars who have been willing to share information and interpretations of developments in the international arena often have contributed valuably to intelligence support of the U.S. foreign policy-making process. Without the continuing assistance of the academic community, our ability to provide the President and other senior officials with objective and enlightened analysis and estimates would be hampered. I believe strongly that in this increasingly complex and competitive world it remains in the best interests of both the academic and intelligence communities to expand and refine their contacts in a spirit of mutual respect and understanding."

<sup>on</sup>... Current CIA policy covering our relations with American staff and faculty members of U.S. academic institutions is already, to a large degree, consistent with the Harvard guidelines. Present Agency policies may be summarized as follows:

All of our contracts with academic institutions are entered into with the knowledge of appropriate senior management officials of the institution concerned.

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All recruiting for CIA staff employment on campus is overt.

It is against our policy to obtain the unwitting services of American staff and faculty members of U.S. academic institutions."

"...<sup>to</sup> I take exception ~~with~~ the provision in your guideline which requires your faculty members to report such arrangements in writing to the dean of their faculty....~~At least, I take such exception if a similar regulation is not applicable to liaison arrangements with industry, other governmental agencies, foreign governments, etc. If such is not the case, I believe that attempts to regulate the private lives of our citizens in a manner discriminatory to any particular group, profession or segment of society poses serious risks. I believe that we would be far safer not to single out any group, despite what may be transient enthusiasm for so doing. In point of fact, it is our policy in these cases to suggest to individual scholars that they inform appropriate officials at their universities of their relationship with CIA. Frequently, however, scholars object to advising any third parties on the understandable grounds that to do so would violate their constitutional rights to privacy and free association and possibly expose them to harassment and damage to their professional careers...As you are aware, there are two such cases of unfair and prejudicial harassment at this time on other campuses. Thus, the decision on whether to advise their institution of a relationship with CIA is left to the discretion of the individual. We intend to continue respecting the wishes of individuals in this regard.~~

This issue, of course, transcends the relationship with academics. All American citizens must continue to have the freedom to choose whether or not they want to cooperate with any government agency, and, if they choose to assist the CIA in its work, we must be able to ensure the confidentiality of that relationship.

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## *Proposed Internal Revenue Actions on Allowances*

I share the concern of our operating components and the employees overseas with respect to the possible repeal of Section 912 of the Internal Revenue Code, which would mean that allowances paid to employees at foreign posts would become taxable income to them. The matter of employees' entitlements has ~~now~~ been discussed at the President's Cabinet meetings, and I assure you that the agencies and departments concerned are acutely aware of the implications and the impact it can have on morale. The Secretary of State and I have ~~both~~ sent letters to the Secretary of the Treasury to urge that the provisions of Section 912 be retained. Copies of these letters have been disseminated to the overseas posts and to the Headquarters components which support them, and I assure you that the Agency will do whatever it can to preserve the entitlements of our employees overseas.

I share the concern of <sup>our</sup> the operating components and the employees overseas with respect to the possible repeal of Section 912 of the Internal Revenue Code, which would mean that allowances paid to employees at foreign posts would become taxable income to them. ~~[I am fully aware that inflation and the cost of living spiral at overseas location have eliminated~~  
~~MANY~~ <sup>ADVANTAGES</sup> ~~much of the attractiveness previously associated with foreign~~  
~~tours, and that a significant increase in taxation could make~~  
~~it difficult or impossible for them to meet their commitments~~  
~~for foreign service. This is a problem which has been developing for~~  
~~the past two years, and it is now coming sharply into focus because~~  
~~the new tax legislation must be considered by the Congress in the~~  
~~near future.]~~ The matter of employees' entitlements has now been discussed at the President's Cabinet meetings, and I assure you that the agencies and departments concerned are acutely aware of the implications and the impact it <sup>can have</sup> ~~has had~~ on morale. The Secretary of State and I have both sent letters to the Secretary of the Treasury to urge that the provisions of Section 912 be retained. Copies of these letters have been disseminated to the overseas posts and to the Headquarters components which support them, and I assure you that the Agency will do whatever it can to <sup>preserve the entitlements</sup> ~~protect the rights~~ of <sup>our</sup> ~~its~~ employees overseas.

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Department of State

TELEGRAM

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A/ALS: NLIZOTTE (BY PHONE)  
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INFORM CONSULS

E. O. 11652: N/A

TAGS: ALOW

SUBJECT: RECOMMENDATION ON TAXATION OF ALLOWANCES

REF: STATE A-2879; A-2633; A-1593

1. ON JULY 30 SECRETARY VANCE SPOKE TO SECRETARY OF TREASURY BLUMENTHAL AND SENT HIM A LETTER AND STAFF MEMO-RANDUM EXPRESSING STRONG OPPOSITION TO PROPOSAL OF TREASURY OFFICE OF TAX POLICY CONSIDERATION OF REPEAL OF SECTION 912 OF THE INTERNAL REVENUE CODE. HE URGED THAT THE PROPOSAL NOT BE SENT FORWARD AS PART OF ANY TAX REFORM PACKAGE AND STATED HIS WILLINGNESS TO TAKE UP THE MATTER WITH HIGHEST LEVELS IF IT SHOULD BE NECESSARY TO DO SO.

2. SECSTATE EXPRESSED HIS JUDGMENT THAT THE PROPOSED REPEAL OF SECTION 912 EXEMPTING THESE OVERSEAS ALLOWANCES FROM TAXATION WOULD HAVE SERIOUS ADVERSE IMPLICATIONS NOT ONLY FOR DEPT OF STATE, BUT FOR ALL OTHER GOVERNMENT AGENCIES WITH CIVILIAN EMPLOYEES SERVING ABROAD. HE NOTED SEVERE TAX IMPACT OF PROPOSAL ON STAFF AS WELL AS OFFICER LEVEL PERSONNEL. HE ALSO STATED THAT OUR EMPLOYEES MUST NOT BE DISADVANTAGED THROUGH TAXATION OF ALLOWANCES WHICH REPRESENT REIMBURSEMENT TO THEM FOR THE UNUSUAL COSTS ASSOCIATED WITH THEIR OVERSEAS ASSIGNMENTS. SUCH

ALLOWANCES SHOULD NOT BE CONSIDERED INCREMENTAL INCOME TO EMPLOYEES.

3. THE SECRETARY REGARDS THIS AS AN EXTREMELY IMPORTANT ISSUE AND BE ASSURED THAT EVERY EFFORT WILL BE MADE TO KEEP ALL EMPLOYEES INFORMED OF ANY DEVELOPMENTS. CHRISTOPHER

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THE SECRETARY OF STATE  
WASHINGTON

7720070

July 30, 1977

COPIES TO:

M  
S/S-S  
S/S-S-LF  
A  
M/MO  
RF (jhw)

Dear Mike:

At the Cabinet meeting on July 25, you mentioned that Treasury was considering the taxation of allowances and benefits paid to USG civilian employees overseas as part of the Administration's Tax Reform proposals.

This is of great concern to me. The proposed repeal of Section 912 exempting these overseas allowances from taxation would have most serious adverse implications not only for the Department of State, but for all other government agencies with civilian employees serving abroad. If we are to retain the flexibility we need in the personnel administration of our overseas operations, we must insure that our personnel are not financially disadvantaged through the taxation of allowances which represent reimbursement to them for the unusual costs associated with their overseas assignments. Such allowances should not be considered incremental income to employees. I subscribe fully to the reasons in opposition to the proposal set forth in the attached memorandum.

I urge you not to go forward with the proposed repeal of the overseas allowances exemption. I regard this issue as so important that I would want to take it up with the President if it should be necessary or if you should wish me to do so.

Sincerely,

MICROFILMED  
BY S/S-1

The Honorable  
W. Michael Blumenthal,  
Secretary of the Treasury.

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Drafted by: A/ALS:RWeiss:mak

A/ALS:WWeiss

STAFF MEMORANDUM

It has been suggested that it is necessary to tax the allowances of government civilians overseas because we want to treat them in the same manner as employees of private industry overseas. The repeal of Section 912 will not contribute toward equal treatment, when the conditions under which each group serves are different in so many ways. Nor should it be suggested that taxation of military allowances and benefits would constitute equal treatment for civilian and military personnel. It must be recognized that different groups with different reasons for being overseas and differing needs and responsibilities are involved. That fact alone argues for the need for separate treatment and procedures to meet the specific needs of each group.

The Overseas Differential Act of 1960 (P.L. 86-707) which authorizes most of the overseas allowances in question, and the House and Senate Reports on the Act, clearly show Congressional recognition that service abroad entails expenses to employees above those which the employees would incur were they stationed in the United States. There has never been any intention to provide overseas employees with monetary advantages over their colleagues who serve at home, except to assure equal treatment, as in the case of cost of living payments. Many misconceptions exist, both in and out of government, as to the true nature of overseas allowances and benefits. If unbalanced treatment truly does exist between employees serving in the U.S. and abroad, methods of correction short of repealing Section 912 must be found.

The Inter-Agency Committee on Overseas Allowances and Benefits has reviewed the existing structure of federal civilian overseas allowances and benefits to arrive at recommendations on a comprehensive allowance program which would, effectively and equitably, meet current requirements for overseas operations. Secretary Vance sent Secretary Blumenthal a copy of the report on July 11 emphasizing the former's agreement with the conclusions of Chapter 4 - Taxation of Allowances.

Since the treatment of allowances for tax purposes is an essential element of the entire allowance structure, all committee members were asked to comment

- 2 -

on the proposed repeal of Section 912 of the Internal Revenue Code. There was agreement by 19 of 20 agencies (Department of Treasury abstained on Chapter 4) that a flat repeal of Section 912 at this time would be grossly inequitable, prejudicial to the operations of the foreign affairs agencies, and without significant benefits to overall U.S. Government operations.

A brief review of some of the more significant overseas allowances will show why it would be inappropriate to subject them to taxation. The essential feature of each of these allowances is that it is intended to defray necessary additional expenses incurred because of overseas service. With the exception of the hardship differential paid to employees at unhealthy, dangerous or otherwise less desirable posts, which is currently subject to taxation, none of the allowances are classified as "premium" allowances.

- The cost-of-living allowance is simply an equalizer designed to offset the difference between the cost of living at an expensive foreign post of assignment and in Washington, D. C. It is not realistic to expect employees to pay additional taxes because prices are higher in some parts of the world. For example, the cost of living for U.S. Government

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- An education allowance is authorized so that all parents employed by the Government overseas can provide their children with the level of education which is available to all children free in the United States. Clearly this is not incremental income and not properly taxable.

- The quarters allowance is also an offset against extraordinary housing expenses

- 3 -

which an employee encounters as a direct result of his assignment in a foreign country. The annual cost of rent and utilities for a typical GS-13 employee



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of adequate housing and spiraling rent and utility costs at most foreign locations, the quarters allowance continues to be necessary to assign the right person to the right post at the right time.

If one were to follow the tax methodology of 15% suggested by Assistant Secretary Woodworth of the Office of Tax Policy to the representatives of State, Agriculture, DOD and CIA who met with him, the increase in



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1 August 1977

The Honorable Michael Blumenthal  
The Secretary of the Treasury  
Washington, D.C. 20220

Dear Mike,

At the Cabinet Meeting on 25 July 1977, you mentioned the possibility of legislation which would rescind Section 912 of the Internal Revenue Code, thereby making allowances paid to overseas personnel taxable income to them. I appreciate your raising the subject at this level and would like to take this opportunity to comment from the CIA viewpoint.

During the past two years, there has been significant concern in the Agency on the part of management, as well as the employees, with respect to this legislation. It would have very serious implications for all agencies with personnel overseas, since it would mean that employees assigned abroad would thereafter be faced with the payment of substantially increased income taxes.

There are a number of reasons why we feel that a revision of the law would be a mistake, and we are prepared to document these in as much detail as necessary. Basically, however, they fall into three categories:

First, the burden of the change would be borne by employees, particularly those in the lower grades, and it would then not be possible to persuade employees to accept the overseas obligations. Further, the short-term impact on complements abroad could be devastating, both to morale and to willingness of employees to stay abroad.

Second, there seems to be an assumption that, if Section 912 is rescinded, the other committees of Congress will increase the allowances to help offset some of the taxes the employees will pay.

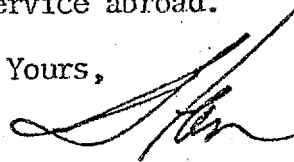
NCI Letter to Sec. Blumenthal

In discussions with some of the committees, however, they have indicated that they do not believe that the Congress would increase appropriations for this purpose.

And, finally, the requirement to report all of these expenditures in the separate pay accounts of the thousands of employees, and otherwise facilitating enforcement of the new law by the Internal Revenue Service, would result in an enormously increased administrative workload. We believe, in fact, that the additional appropriations and increased workload would nullify any benefit the Government might otherwise realize as a result of increased revenue from the employee/taxpayers.

The CIA is represented on the Interagency Committee on Overseas Allowances and Benefits, which is still in liaison with the working level in the Treasury Department to assure that all of the related facts are available to your staff. I sincerely urge that these facts be given careful consideration, because our overseas operations will be vitally affected if key employees conclude that their financial best interests require that they avoid service abroad.

Yours,



STANSFIELD TURNER

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